

The Domestic Policy Subcommittee, which has oversight jurisdiction over the Securities and Exchange Commission (SEC), will hold a hearing to examine the possible risks presented to ordinary investors by the recent Blackstone Group L.P. ("Blackstone LP") and similar upcoming initial public offerings ("IPOs") of the management entities of hedge funds and private equity funds. The hearing will examine whether the SEC's Investment Company Act of 1940 (the "'40 Act") determination is likely to be accepted by the courts, whether existing investor protections are sufficient to protect ordinary investors from new risks, and whether new regulation is necessary.

In the past, only wealthy and sophisticated investors have been allowed to invest in these funds. In contrast, investments by the ordinary public have been prohibited because of the risks inherent in the funds' investment strategies and the lack of safeguards for investors. Under the Blackstone LP and related investment vehicles, for the first time the value of investments made by ordinary investors is directly dependent on the performance of the underlying hedge-fund portfolios.

Because the SEC determined that the '40 Act was inapplicable to Blackstone LP's novel and complex corporate structure, ordinary investors — unlike investors in mutual funds — will not have benefit from the numerous investor protections, including provisions designed to reduce risks, eliminate conflicts of interest, and increase disclosure to investors. Witnesses for the hearing include:

Panel I

Mr. Andrew J. Donohue, *Director of the Division of Investment Management, Securities & Exchange Commission*

Panel II

Professor Mercer Bullard, *University of Mississippi Law School*

Professor John Coffee, *Columbia Law School*

Mr. Joseph Borg, *President of the Board of Directors of the North American Securities Administrators Association*

Mr. Peter Tanous, President and CEO, *Lynx Investment Advisory, LLC*

Documents and Links

- [Andrew Donohue Testimony](#)
- [John Coffee Testimony](#)
- [Congressman Kucinich Opening Statement](#)
- [Joseph Borg Testimony](#)
- [Mercer Bullard Testimony](#)
- [Peter Tanous Testimony](#)